

Witness Testimony from Colonel Gary Lindner, USAF (ret.), PeopleFund President & CEO

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Financial Services Committee's Oversight and Investigations Subcommittee

Field Hearing on "Examining Discrimination and Other Barriers to Consumer Credit, Homeownership, and Financial Inclusion in Texas"

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Small businesses are the economic hub that keep the city of Houston, the great state of Texas, and the entire nation moving. Entrepreneurs create living wage jobs that support families and elevate low income communities. According to the U.S. Small Business Administration, small businesses accounted for 66% of new jobs last year.¹ In Texas, small businesses represent nearly 90% of all businesses in Texas, but access to affordable capital and the tools to grow remains a critical challenge.

In 2018 The Kauffman Foundation released a report stating that 81% of entrepreneurs do not access a bank loan or venture capital; the barriers to entry for diverse and low income small business owners are mounting.² Large banks continue to expand while small and medium community banks shrink and underwriting criteria tightens. Since 2008, the number of banks with assets under \$50 million has declined 41%, and large banks simply cannot make a profit on small risky microloans.³ The current lending landscape among mainstream financial institutions often precludes diverse and low income small business owners – these are our community's leaders, brilliant innovators, and entrepreneurs who simply want a hand up as they climb the ladder of economic mobility.

Community development financial institutions like PeopleFund were created to bridge the void between the banking sector and a business owner in need. Mission-driven and committed to advancing underserved populations, community development financial institutions help startup, low income, and minority borrowers by extending capital, wrapping funds with tailored financial education and technical assistance, and guiding them on the journey toward wealth. Community lenders like PeopleFund remain committed to social and economic justice, embracing diversity among the board and staff. At PeopleFund, we have a minority-majority staff and governing board to ensure that our programs, products, and services are responsive to client need and that everyone has a voice at the table. Our target market is minority, women, veteran businesses and those located in low to moderate income census tracts. 97% of our loans are to our target market.

Although certified by the U.S. Treasury Department, community development financial institutions are not subject to the same regulatory oversight as banks, however we remain accountable to all who provide us with low cost capital for lending. We have greater latitude in our lending practices, and we can be agile in our programming to fill gaps as they arise. For example, in the wake of Hurricane Harvey, 90 of our clients with loans from PeopleFund sustained severe damage to their businesses. In response, PeopleFund made a conscious decision to make loan payments with our capital for those 90 clients for 6 months, because we believed that under the circumstance it was the right thing to do. We also assisted with insurance claims, document recovery, and cleanup. Pleased to report that of the 90 businesses, 88 are still operating. One business owner passed away and the other moved away. This is just one instance of a community development financial institution creatively responding to an urgent need and build a lasting bond with our small business owners.

Unlike traditional banks, community development financial institutions are collaborative, not competitive, and work together to leverage our resources to build a better tomorrow through economic opportunity. PeopleFund, and community development financial institutions throughout Texas have worked alongside one another to create special

¹ U.S. Small Business Administration Office of Advocacy *What's New With Small Business Report 2018*
(<https://www.sba.gov/sites/default/files/Whats-New-With-Small-Business-2018.pdf>)

² Jacob, Larry. *3 Trends that Prevent Entrepreneurs from Accessing Capital*. Kauffman Foundation, 2018
(<https://www.kauffman.org/currents/2018/07/3-trends-that-prevent-entrepreneurs-from-accessing-capital>)

³ Ibid.

loan pools for veterans, products dedicated to entrepreneurs of color, education programs for formerly incarcerated individuals, and expanded access to technology and digital resources.

Our clients come from all segments of life; some never completed high school and others honorably served in the military – one element they share is a desire to obtain their piece of the American Dream and willingness to work hard for that very opportunity. Despite lending to startup entrepreneurs, business owners with Individual Tax Identification Numbers (ITIN) but without citizenship status, borrowers with limited or challenging credit histories, and in low income areas, our 2018 loan default rate was less than 1%. With flexible capital and comprehensive business education, we can lift up marginalized populations, transform neighborhoods, and create living wage jobs. Small businesses have the power to elevate entire communities, bringing in critical goods and services, spurring future development, and ensuring future generations have access to traditional financial products. Community development financial institutions are the entry point to spark this change.